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Michael Schaper on Small Businesses: Unravelling Popular Myths About Their Value and Viability

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Small businesses, or SMEs (small and medium enterprises), typically account for more than 95% of all private sector entities -- in some countries up to 99% -- and employ more than half the workforce, reveals a study by Michael Schaper, dean of the Murdoch University Business School in Australia. "Collectively, small businesses are a force to be reckoned with in all the countries covered in our research study," said Schaper at a talk organised recently by the Singapore Management University's UOB-SMU Enterprise Alliance Centre. Schaper, who has co-authored several books on SMEs, was previously Small Business Commissioner for the Australian Capital Territory in Canberra, and foundation professor of small business at Newcastle University.

Explaining the purpose of his project, Schaper said, "There has not been much research done on the SME sector. Knowing what makes SMEs tick will provide policymakers with the necessary knowledge to promote this sector. The study is useful not only to policymakers, but also to business and industry associations, and small business owners who will find comfort that, as a group, they do represent a significant part of the economy."

What are some of the myths about SMEs across the globe, and why are they simply not true? Schaper dismantles common misconceptions about small businesses and their owners - of which seven are described here - by analysing official data published in Australia, New Zealand, China, Malaysia, Singapore as well as the US, UK and Europe. Adding a caveat that each country collects its data and defines business categories differently, Schaper pointed out that trends are, nevertheless, clearly discernible from this research project.

Myth #1: There aren't really many small businesses.

The reverse is really true, according to Schaper's research. The proportion of large firms in the private sector is a mere 5% compared with SMEs who constitute all the rest. For example, according to data from the Australian Bureau of Statistics, 84% of companies are in the micro-small business league, either solely owner-operated or employing up to four workers. Small businesses (5 - 19 employees) account for nearly 12%, medium-sized entities (20 - 199 employees) slightly over 4%, and large firms (200 or more employees) only 0.3% of the sector.

Looking across the Asian region, statistics from Bank Negara Malaysia's SME Annual Report indicate that almost 79% of businesses are micro-enterprises with small firms accounting for an additional 18%, medium-sized firms over 2%, and large firms less than 1%. In China, according to 2003 data, small businesses make up almost 88% while 11% are in the medium-sized group with large business representing just 1% of the sector. When compared with 1999 figures, small entities had grown by nearly 2%, medium-sized enterprises by over 2%, while the number of large firms had declined by 5%.

In the case of Singapore, SMEs constitute 92% of all firms, employ 51% of the workforce and account for 34% of GDP. Regarding the slightly lower than average composition of such enterprises in Singapore, Schaper said, "Many SMEs are home-based, and the removal of restrictions on home offices only in 2003 may have been a contributing factor". Official statistics show that the number of registered businesses in Singapore went up from 97,500 in 2003 to 122,100 in 2006, a significant increase of 25% following the rule change.

Myth #2: Small business numbers are shrinking.

Data on start ups in New Zealand, Canada and Australia, reveal that small businesses are not declining but have remained steady. "Over the last 20 years, in fact, there have been no significant changes in the proportion of SMEs in each of the three countries. The pattern has been remarkably consistent with only minor variations from one period to another," observed Schaper.

In New Zealand, for example, between 1986 and 2003 the number of owner-operated small businesses -- including those with less than five employees -- increased from just over 74% to 86%. Medium-sized entities with 6 to 19 employees remained largely the same at around 11%. However, there was a significant decline in the number of large firms from 15% to 3%. A comparative study in Australia for the period 1983 - 2006 saw micro-small businesses growing from 79% to 84% while the number of small businesses decreased from 17% to just under 12%. Medium-sized enterprises grew marginally from 3.9% to 4.1%, whereas the number of large firms remained steady at 0.3%.

In Canada, between 1983 and 2001 the number of micro-small businesses (up to 19 employees) decreased slightly from 94% to 92%. For the same period, medium-sized enterprises increased from 5% to 6.5% while medium to large

entities (100 - 499 staff) hardly grew. The proportion of large firms (more than 500 employees) remained constant at 0.2% throughout this period.

Myth #3: Most small businesses are employers.

"Two-thirds of all small businesses operate from home, and more than half of them do not have staff," reported Schaper. The study also showed that 34% of micro-scale owner-operators work part-time while 66% run their businesses full-time. Schaper also predicts that the Internet will facilitate the growth of more home-based virtual businesses. "Operators can be available round-the-clock to deal with enquiries, work part-time and respond from anywhere with Internet access," he said.

Myth #4: The failure rate amongst small businesses is extremely high.

In dismantling this myth, Schaper distinguishes between business failure and legitimate exits. "It is important to appreciate that operators exit their businesses for many reasons, not necessarily due to failure. A successful business owner may exit because of a buy-out, merger or a change of ownership. Most businesses survive for the first year and a reasonable number are still around by the end of the second year. Small businesses are remarkably durable," he said.

In fact, a poll reveals that 90% of Australian small businesses see themselves as being successful. According to these entities, 52% of the owners attribute their success to being able to provide quality products or services, 14% believed good management to be a positive factor, and 10% credited prior experience for their success.

In Australia, business exits are most prevalent among retail players, partnerships and new entities, reported Schaper. According to official data, 18% exit after two years, 24% after three years, 35% after five years, 55% after ten years and 65% after fifteen years. Figures for Singapore indicate a somewhat similar trend. About 94% to 96% survive to the end of first year while around two thirds are still in operation at the end of three years, and about half are still active after five years.

Myth #5: Most businesses are 'young guns' and men on a mission.

Data from Australia puts paid to this misconception by showing, surprisingly, that the number of younger owners, aged 30 years and below, has declined. A similar trend is evident with entrepreneurs in the 30-50 year age group.

Elaborating further, Schaper said: "Thirty three percent of business proprietors are operated by people above 50 years of age. In contrast, groups under 30 years and between 30 to 50 years of age are actually decreasing. From the gender perspective, 67% of business owners are males, but this proportion is declining in the face of a growing number of female operators who now own 33% of such entities."

From 1997 to 2003, people in the 30 to 50 year old category accounted for the highest number of small businesses, even though this figure has decreased marginally. Growth in small businesses is being driven by the mature cohort, or those over 50 years of age, who have been increasing steadily from 1997 to 2003.

Commenting on the age factor, Schaper said, "This development is not surprising given that the issue of an ageing population has come to a head in several countries. The mature cohort has the money, knowledge and network to start a business, especially in view of a trend showing that this group of seniors wants to continue to contribute economically and be active."

Myth #6: Entrepreneurship is a one-off event.

A significant number of business owners are 'serial entrepreneurs' operating one entity after another. "Between 10% and 30% of business owners fall into the group of serial entrepreneur. They tend to be male, from a business family, well-educated, between 30 and 49 years of age, and having strong growth orientation. They are frequently inclined to buy a business as a going concern, are less likely to operate a home-based enterprise, and more likely want to expand their business in future," noted Schaper.

A second type of owner may run more than one business concurrently. According to Schaper, the demarcation between serial and concurrent owners is not clearly defined, and these groups often overlap. For example, in Australia in 2003, 5% of all business owners were operating two entities simultaneously while 2% were operating three or more businesses.

Myth #7: Small business owners are very wealthy.

Correcting this fallacy, Schaper said: "The private wealth of small business owners is often lower than popular view, and less than that of wage and salary owners. Turnover of most firms is lower than generally expected with owners often earning lower net profit. At the same time, business owners tend to rely on the eventual sale of their business to realise their investments."


A study of Australian small entities disclosed that 21% earn below A\$49,999 per annum, a large percentage (40%)


has turnover between A\$50,000 and A\$199,999, while 33% made between A\$200,000 and A\$1.999 million with just 6% going over A\$2 million annually. "Looking strictly at financial rewards, and considering that a small business typically makes a net profit of 10%, one can readily see that many of these owners are not better off than the average wage earner," commented Schaper.

Need for Common Data

Although his study uncovered interesting facts about small businesses, Schaper stressed the need for many governments in Asia to provide more comprehensive data on the sector. In addition, as methods of defining and collecting data on business demographics vary from country to country, he proposed that governments adopt a coordinated approach to providing common information useful for policy planning purposes. "Broad observations have been made from this research study, but more precise analysis has not been possible because there are reporting inconsistencies in the data sets of different countries," said Schaper.

Looking ahead, he foresees that further research is needed on several issues: why common trends emerge despite the variances in data sets between different countries; how useful are public enterprise support programmes; and whether a set of structural dynamics exists which produces like outcomes. Another area that should be researched is the identification of similar macro-level principles, if any, governing other aspects of small firm behaviour across countries, added Schaper.

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